



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

DP/CPF

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

MAR 21 2002

MEMORANDUM FOR DIRECTORS, DEFENSE AGENCIES  
DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(PROCUREMENT)  
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,  
ASN (RD&A)/ABM  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(CONTRACTING), SAF/AQC  
EXECUTIVE DIRECTOR FOR LOGISTICS POLICY AND  
ACQUISITION MANAGEMENT (DLA)

SUBJECT: Price Analyses and Price Reasonableness Determinations  
When Cost or Pricing Data Are Not Obtained

Last year the Department of Defense Inspector General (DoDIG) issued a report (Report D2001-129 dated May 30, 2001) critical of contracting officer determinations of price reasonableness. The DoDIG reviewed procurement actions exempt from submission of certified cost or pricing data. Actions reviewed were sole-source, competitive but with only one bid received, or for the purchase of commercial items. The purpose of this memorandum is to reiterate the importance of obtaining information on the prices at which the same or similar items have previously been sold, using that information to complete a thorough price analysis, and documenting the contract file to provide an adequate explanation of the contracting officer's determination that the price agreed to was fair and reasonable. I am also requesting that you ensure the performance of management reviews of the adequacy of price reasonableness determinations and underlying analyses at major buying activities.

As recently as September 1999, Parts 12 and 15 of the Federal Acquisition Regulation (FAR) were revised to provide clearer guidance to contracting professionals regarding obtaining and analyzing historical pricing information necessary for completion of an adequate price analysis. Per FAR 15.403-3, the contracting officer is responsible for obtaining information adequate for evaluating price reasonableness. Contracting professionals should require contractors to provide information needed for making price comparisons and analyzing pricing trends, pursuant to a determination that the proposed price is fair and reasonable. This includes information regarding prior prices at which the item was sold, the quantities sold, and other pertinent facts. In some situations it may also be appropriate to obtain cost information to enable the contracting officer to analyze price increases not otherwise explainable from market research.



A contractor that refuses to provide necessary information may be rendered ineligible for award unless the Head of the Contracting Activity determines otherwise, in accordance with FAR 15.403-3(a)(4). As such, it is important that contractor refusals to provide requested pricing information receive the attention of levels of management higher than the contracting officer, and that contracting officers document the extent of their efforts to obtain needed information.

Price analyses must be fully documented in the contract file. If circumstances compel the Government to agree to a price that cannot be justified as fair and reasonable, those circumstances must also be fully documented so that the price will not be used as the basis for future price comparisons. These requirements are not new. They remain an essential aspect of price analyses and price reasonableness determinations, irrespective of whether the item being bought is commercial or non-commercial.

I made a commitment to the DoDIG to identify buying activities where DoD has the greatest exposure to potential overpricing, based on the total dollar value of actions exempt from any requirement for submission of certified cost or pricing data. Based on DD 350 data for FY 2001, most major buying activities within the Military Departments and Defense Agencies are pricing a significant amount of actions without the use of certified data. The top twenty activities that do so are identified on the attached list.

I also agreed with the DoDIG recommendation that greater management attention be focused on the quality of price reasonableness determinations. We must all work together to ensure the pricing issues raised by the DoDIG are being fully addressed where needed. Accordingly, I request you ensure that all major buying activities have completed a recent review of the adequacy of contracting officer price reasonableness determinations as part of Procurement Management Reviews (PMRs) or other internal compliance reviews, or will complete one within one year. Please provide me a list of all completed or planned PMRs or other internal reviews that have or will include a review of this critical function. This information should be provided to my staff POC for this subject, Mr. Richard Brown, by April 30, 2002. Mr. Brown can be reached by phone at 703-695-7197 or by email at [Richard.G.Brown@osd.mil](mailto:Richard.G.Brown@osd.mil).



Deidre A. Lee  
Director, Defense Procurement

Attachment:  
As stated

**FY 2001** Top 20 Buying Activities - Sole source or Competitive One Bid Received - No Cost or Pricing Data Obtained - Rank based on total dollars reported to DD 350 system

Dept	Contracting Office	City	ST/CN
USN	NAVAL SEA SYSTEMS COMMAND	Arlington	Virginia
USAF	Aeronautical Systems Center	Wright Patterson AFB	Ohio
USN	NAVAL AIR SYSTEMS COMMAND	Patuxent River NAS	Maryland
USAF	HQ Air Force Materiel Command	Wright Patterson AFB	Ohio
DoCA	Defense Commissary Agency	Popewell	Virginia
USA	Tank Automotive Command - Warren	Warren	Michigan
USA	US Army Aviation and Missile Command	Fedstone Arsenal	Alabama
DLA	Defense Supply Center Richmond	Richmond	Virginia
USN	STRATEGIC SYSTEMS PROGRAMS	Washington Naval Sec	D.C.
USA	Defense Supply Svc. - Washington	Washington	D.C.
USAF	Oklahoma City Air Logistics Center	Tinker AFB	Oklahoma
DISA	Defense Info. Technology Contrac	Scott AFB	Illinois
USAF	Electronic Systems Center	Hanscom AFB	Mass
USA	US Army Communications-Electronics	Fort Monmouth	New Jersey
USA	U.S. Army Industrial Operations	Rock Island	Illinois
DLA	Def Pers Spt Ctr Cloth & Textil	Philadelphia	Penn
USN	FLEET & INDUSTRIAL SUPPLY CENTER	PHIL NAV SHIPYD	Penn
USA	HQ, Military Traffic Mgmt Command	Falls Church	Virginia
USN	NAVAL INVENTORY CONTROL POINT	Philadelphia	Penn
USN	MARINE CORPS SYSTEMS COMMAND	Quantico MCD&EC	Virginia